

# The Economist

A SURVEY OF FRANCE

## The grand illusion







## The grand illusion

WHEN "Astérix and Obélix against César", a film based on a French comic strip about plucky Gauls who resist the mighty Roman empire, was released earlier this year, the French seized upon it as an emblem of national assertiveness. Astérix, declared the highbrow newspaper *Le Monde*, was "a national matter of the greatest importance". The film, it continued, was "a symbol of Gallic resistance to the Hollywood invasion", the gritty small fighter against an imperialist assault. "We must sink 'Titanic' with this film; French pride is at stake," echoed Albert Uderzo, co-author of the original comic strip. The film pulled in over 8m people in its first two months.

But although Astérix may have clocked up this year's best viewing tally so far, its audience was dwarfed by the 21m French movie-goers who streamed to see the American blockbuster "Titanic". There is no way that Astérix could sink "Titanic", just as there is no way that France as a whole—its businesses, its labour market, its popular culture—can resist globalisation, a force which the French regard with deep ambivalence as the bearer of the American way.

The French appeal to national pride over the Astérix release was nothing unusual. Hardly a week goes by without some politician or pundit calling on the French to defend the *exception française*, the French way. "We have the greatest respect for others," declared President Jacques Chirac at a meeting of the Group of Seven industrial countries in Denver in 1997, in response to talk about copying America's economic policies, "but we have our traditions, our model, and we wish to keep them."

The French *dirigiste* model, based on a strong and ambitious state, at once the creator of riches and the guarantor of equality, retains a tight grip on the French mind. "The role of the state", says Jean-Luc Lagardère, head of the Lagardère defence group, "has been fundamental since the 17th century,

something I greatly admire." Historically, France needed a strong state to fashion a nation from the successive waves of tribes that spilled across its lands. Faith in a *dirigiste* state was fortified under Napoleon, but taps a tradition reaching further back, to the *Ancien Régime* and to Louis XIV's finance minister, Jean-Baptiste Colbert.

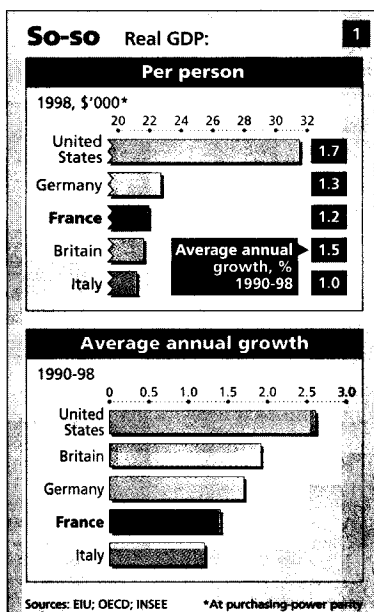
Moreover, the republican values that inspired the French model were regarded as universal, and the need to spread them as a vocation for the French. "When we organised our state", says Charles Pasqua, a Gaullist former interior minister, "we were bold enough to imagine that it was a model not only for France but for the whole world." Abroad, the British simply ruled their colonies; the French tried to turn Africans into Frenchmen, with history lessons about "our ancestors, the Gauls".

Even today, physical reminders of the power of the state are everywhere. No French village is complete without its dominant town hall, decorated assertively with a huge tricolor flag; no *département* without its grand *préfecture*, stately home to the unelected representative from Paris. At its various levels, the French state spends a hefty 54% of GDP, one of the highest proportions in the European Union, and employs one in four workers. Three-quarters of the ministers under Lionel Jospin, France's present prime minister, are former civil servants. Even the state-sponsored "Plan" retains its name and its symbolic capital letter to this day.

To most Frenchmen, the *dirigiste* model remains a source of pride, not resentment. This owes much to the part the state played in the 30 years of spectacular economic growth after the second world war, which propelled a heavily rural economy into the modern industrial age. It turned France into the world's fourth-largest industrial power, after America, Japan and Germany, and its fourth-biggest exporter. In terms of income per head, France overtook Britain in 1969, and has re-

France is changing, but cannot face up to it. Blame its exaggerated suspicion of the American way, says Sophie Pedder





tained that lead to this day. Despite the heavy state, private enterprise has flourished. France is home to a host of profitable world-class firms, such as L'Oréal, the world's biggest cosmetics group, Danone, the world's biggest dairy-products firm, Vivendi, the world's biggest water company, AXA, Europe's biggest insurer, and LVMH, a successful luxury-goods group. Many of them are run by an elite of French former bureaucrats, trained to believe that any problem can be solved if subjected to enough rational analysis. The way the French educate their administrative caste does not appear to be an obvious handicap in the competitive world.

However, this survey will argue that the French model has reached its limits in several important respects. Increasingly open and competitive markets, both in the EU

and beyond, together with stubbornly high joblessness, a greying population and disillusion about corruption among the elite, are putting the model under intense strain.

France needs to adapt its welfare state, its public service, its labour market, even its business sector. Indeed, it is already doing so, but in ways that the French find uncomfortable. This is because many of the changes involve embracing the values and practices of liberal American capitalism, which the French find difficult to square with those of their own *dirigiste* model.

French history has been, in large part, profoundly anti-liberal. Liberal economic thinking finds little echo in French history, and plays little part in the way the French see themselves. This does not mean that they cannot change—nor that the French should uncritically adopt the liberal model. France has its own traditions and political dynamics, and can surely find its own middle way. But it does make change more complicated, more wrenching—and all the harder to detect beneath the public talk about the need to preserve the French way. Fear of unfettered liberal capitalism often stops France from achieving, and certainly from admitting to, any change at all.

### Mickey takes on Astérix

Many of these changes would require the French to adopt features of the American way. Since their respective revolutions in the 18th century, separated by just 13 years, France and America have had a profoundly ambivalent relationship: France is at once admiring, resentful and disdainful, fascinated, infuriated and threatened by America. For sure, France's chief post-war foreign concern has been the construction of Europe, and the main motive for this the peaceful containment of Germany. But, these days, French preoccupation with Europe often stems as much from its desire to stand up to the Americans as from its historical fear of Germany.

French anti-Americanism has moved in waves throughout this century, intensifying politically in the 1950s under the twin influences of the French

Communist Party and General Charles de Gaulle. De Gaulle, the most recent embodiment of France's universalist ambitions, once said that France would show the world how to "build an industrial civilisation which is not derived from the American model and in which man will serve as an end, not a means". The French regard America as the epitome of liberal "Anglo-Saxon" capitalism. What sets their model apart from the individualist American one, they believe, are the values of equality and community. After a visit to America in the 1940s, Simone de Beauvoir wrote that she regarded "America as the country where capitalist oppression had triumphed in the most vile fashion."

To this day, even conservative business chiefs punctuate their views on the French model with republican appeals to solidarity, cohesion and equality. "French business leaders, in general, have a much greater sense of their social responsibility than their Anglo-Saxon counterparts," says Mr Lagardère. In French politics today there is no greater snub than to call somebody "ultra-liberal"—a set of beliefs associated with brutal, uncultured, unfettered capitalist American ways. What sometimes secretly seems to annoy the French is that America claims to be the inventor of the modern republican democratic state and of human rights, when they feel the honours should go to their own 18th-century philosophers.

Yet for all their insistence to the contrary, the French are increasingly adopting those American ways. Despite the prop of government money for France's film industry, for example, little over a quarter of all cinema tickets sold last year were for French films, down from about half in 1980. French teenagers now dress in clothes from Gap, wear perfume by Calvin Klein, tune in to "Friends", listen to Lauryn Hill, and surf the "Star Wars" website. In the Internet age, consumer tastes cannot be dictated.

It is not only in the realm of popular culture that Anglo-Saxon habits are creeping up on the French. Over the past few years, their famously *dirigiste* economy has been liberalised beyond recognition: markets in electricity, telecommunications and gas have been opened to competition, and one-time icons of the French state such as Air France, Aero-spaciale and France Télécom have been partially released into private hands. Whisper it softly, but foreign investors now hold nearly half the shares in many formerly state-owned firms such as Société Générale, a bank, and Elf, an oil giant.

Moreover, French businessmen are starting to behave like American capitalists. When, earlier this year, Banque Nationale de Paris launched a hostile bid to take over two other French banks, Société Générale and Paribas, which themselves had just decided to merge, it provoked a bout of soul-searching. Many Frenchmen felt that BNP's chief, Michel Pébereau, had behaved in an uncivilised, aggressive and thoroughly unFrench way. In foreign policy, too, the French are caught between their urge to resist "American hegemony" and the reality of needing America's umbrella when things get serious. Hubert Védrine, Mr Jospin's foreign minister, talks a lot about the need to counter world domination by a single "hyperpower". Yet, when the crisis in Kosovo came to a head in late March, France did not hesitate to put its bombers under the direct orders of an



American commander as part of the NATO force, even though it had pulled out of NATO's military command structure under De Gaulle in 1966 and remains only semi-attached.

"We've Americanised ourselves without realising it," says Dominique Moïsi, deputy director of the French Institute of International Relations, "and the more it happens, the more we resist it." We are

different, the French seem to be saying to themselves through gritted teeth, as if by doing so they can keep all things American at bay. Yet if the country is to build the dynamic and prosperous economy it wants, and is capable of operating, it has to accept some of the things it associates with the American way—and to find a way of doing so that does not undermine its Frenchness.



**T**HE most perplexing question about contemporary France is this. If, as champions of economic liberalism argue, France embodies all the vices of an over-sheltered, welfare-cushioned, state-stifled, centralised, quaint and archaic European model, then how does it manage to be such a vibrant and prosperous place?

It is hard to dispute the fact that France is highly taxed, highly regulated and state-heavy; or that the chief price the French now pay for their *dirigiste* model is a stubbornly high unemployment rate (currently 11.5%), of which more later. More tricky is deciding how far the heavy state really is a burden. Here, it is important to distinguish the essential services the state carries out—those of regulator, educator, protector and planner, which the French call *régalien*—from its traditionally wasteful and reckless part in the productive economy. The trouble is that in trying to fulfil its *dirigiste* aspirations in the first role, the ambitious state cannot resist interfering in ways that impose costs on the second.

Despite the follies of the first Mitterrand government, when in 1981-82 the state engaged in a frenzy of nationalisation and slapped on suffocating taxes, the French economy did not fare significantly worse in the 1980s than other big industrial powers. Recent years have been leaner. Between 1990 and 1997, when the franc was hooked up painfully to the D-mark, France's GDP grew at an average of only 1.2% a year. But there has now been an encouraging economic upturn. Last year's GDP growth of 3.2% was the best of the decade. It was also, for the first time since 1992, faster than the European Union average. Inflation has been stamped flat to a mere

0.5%. The government's budget deficit, at 2.7% of GDP, has been shaved to fit inside the 3% limit set by membership of the euro.

Most striking of all, those Frenchmen who have jobs are highly efficient. Measured by output per hour worked, French labour productivity is higher not only than in Germany but in America too. "For us", says Louis Schweitzer, head of Renault, the country's biggest car manufacturer, "France is the most productive place to make cars in Europe." That helped to persuade Toyota, a Japanese car maker, last year to choose Valenciennes, in northern France, to build its brand-new FFr3.5 billion (\$565m) factory—the biggest Japanese investment in Europe since Toyota and other Japanese manufacturers began making cars in Britain in the 1980s.

### Learning to let go

The weakness of the French model is not that the *régalien* state does a bad job, but that it does a good job too expensively. The French moan endlessly about the quality of their education, yet most middle-class parents happily send their children to state schools. A business and engineering education, which efficiently equips graduates for the labour market, has long been considered chic. Only 35% of French workers have a level of education below the standard expected at the end of compulsory schooling, compared with 50% in America and 55% in Britain, according to a recent report by McKinsey, a consultancy. And yes, French trains still run on time. As part of the French public-sector *grands travaux*, this year the Paris-Lyon high-speed train (TGV) line is being extended to Marseilles in the south, and a new line built to Strasbourg in the east.

Yet the public service remains overweight by at least 10%, or 500,000 employees, according to Alain Juppé, who was prime minister in 1995-97. Public-sector workers are hugely featherbedded, enjoying such perks as fatter pensions (75-85% of final pay, against about 50% in the private sector), earlier retirement, longer holidays, higher child allowances and cheaper travel, all in the knowledge that their jobs are secure for life. So public bodies stubbornly resist change.

At the same time, the state is getting out of some of the areas where it has no business to be. Since he was elected in June 1997 with a pledge to put an end to privatisation, Mr Jospin has put up for sale state-owned enterprises worth some FFr180 billion, more than his five most recent predecessors put together (see table 4, next page). And whereas earlier governments had gone for the easier pickings—a glass maker, a pharmaceutical firm, oil companies—Mr Jos-

### Productive 3

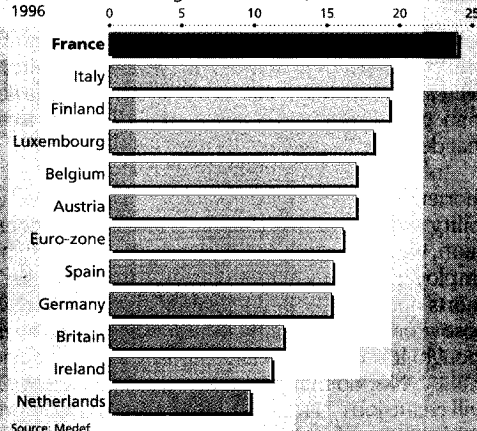
GDP as % of EU average 1996

	per hour worked	per head*
France	136	106
Italy	132	100
United States	131	138
Germany	121	105
Britain	111	98
Japan	94	116

\*of population  
Source: OECD

### Weighed down 2

Tax and social charges on business, % of GDP



Source: Medef



## Under the hammer

Prime minister	Date	Total privatisation revenues Ffr bn	Main companies sold (or partially sold)
<b>Jacques Chirac</b> (Rally for the Republic)	1986-87	77	Saint-Gobain, Paribas, Crédit Commercial de France, Compagnie Générale des Eaux-Alcatel Alsthom, Havas, Société Générale, TF1, Compagnie Financière de Suez, Matra, Elf Aquitaine (11%)
<b>Michel Rocard; Edith Cresson; Pierre Bérégovoy</b> (Socialist Party)	1988-93	13	Total (14%), Rhône-Poulenc (54%)
<b>Edouard Balladur; Alain Juppé</b> (RPR)	1993-96	123	BNP (73%), Union des Assurances de Paris (50%), Renault (40%), SEITA (87.5%), Bull (44%), Usinor (70%), Péchiney (44%), Assurances Générales de France (57%), Elf Aquitaine (35%)
<b>Lionel Jospin</b> (Socialist Party)	1997-present	180	France Télécom (38%), Thomson-CSF (15%), Groupe Assurances Nationales (87%), Thomson Multimédia (30%), Air France (30%), Aerospatiale (52%), Crédit Lyonnais*

Source: La Commission des Participations et Transferts

\*to be sold by July 2nd 1999

pin has sold stakes in businesses which the French consider strategic, such as making fighter aircraft, or public services, such as telephone lines.

The state has not let go altogether. It retains a 44% stake in Renault, and a majority stake in Air France and France Télécom. The government is fighting to keep foreign hands off Crédit Lyonnais, which is about to be sold: letting in private shareholders is one thing, admitting foreigners quite another. And from its days in the public sector, Crédit Lyonnais bequeathed to the French state—or rather, to the taxpayer—losses which in 1997 were put at FF100 billion. As for the Caisse des Dépôts et Consignations, one of France's biggest financial institutions, Mr Jospin has no plans at all to sell it.

Yet the importance of what has happened should not be underestimated. It was encapsulated by the extraordinary sight in February last year of Jean-Claude Gayssot, the Communist transport minister, sitting shoulder-to-shoulder with Dominique Strauss-Kahn, the Socialist finance minister, to announce the partial privatisation of Air France, a company so resistant to change that in the past it had often brought the country to a standstill.

Scratch the surface, and some members of the government, notably Mr Strauss-Kahn, are surprisingly pragmatic. "The private sector can generally manage better than the public sector, that is certain," he concedes. "But my real criterion is: is each franc levied from the taxpayer well spent or not? I am not a believer in either a public-sector or a private-sector religion." For France, this is revolutionary stuff.

### Business breaks free

The retreat from state ownership is a big step, but the French state remains ambitious. The *dirigiste* model presupposes that an intelligent state is better than the markets at organising the economy. And the government has not shed that faith entirely. "Yes

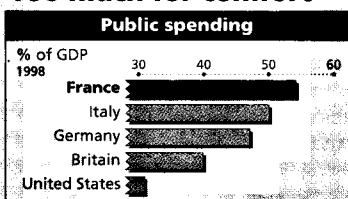
to the market economy," is Mr Jospin's catchphrase, "no to the market society." In trying to protect society from the market, through policies such as a 35-hour week, how far is the government holding back the economy?

It is hard to conclude that big French companies have been cramped. The French bourse has surged by 50% over the past two years, compared with an average of 44% in the FTSE Eurotop 300. Profitable French firms, integrated into global markets, are busy following the American corporate creed by focusing on core businesses, conquering overseas markets and improving shareholder value. In March, in the biggest French acquisition ever of an American company, Vivendi agreed to buy usfilter, America's biggest water-treatment firm, for \$6.2 billion. Earlier this year Alcatel, a telecoms-equipment firm, snapped up two young Californian data-networking companies, Xylan and Assured Access, to keep ahead in the information industry. Over the past five years, profits at L'Oréal, the world's biggest cosmetics firm, have grown by over 12% a year. AXA, once a small provincial French company, is now Europe's biggest insurer by total assets.

The chief reason that firms like these have prospered under a meddling state is enforced inventiveness. Take the 35-hour week, a policy which, promised Martine Aubry, the jobs minister, would help create 1m new jobs over five years. Hatched in the belief that there is a fixed amount of work to be done, and that lopping four hours off everybody's working week will free up four hours of employment for somebody else, the new law now looks certain to do nothing of the sort. Gains in productivity mean that the same worker can often do as much as before in less time. "In our industry," says Renault's Mr Schweitzer, "the number of jobs will continue to decrease, because productivity will increase faster than production; the 35-hour week will just slow that decrease."

In fact, employers are using the prospect of a shorter week to extract previously unthinkable flexibility from the unions: things like wage moderation, weekend work, late-night shifts. Naturally no employer is happy about the law—"totally stupid", snorts one AXA boss—and for smaller firms it does pose genuine difficulties. For big companies, though, it is not unbearable: it just wastes time and money. Nor do many in government still believe it will create jobs. "Frankly", admits one minister privately, "even if it does, it will have meant a lot of

## Too much for comfort



Sources: OECD; National statistics



disorder to create relatively few jobs."

Ingenuity also helps companies get round the French taboo on sacking people. This, complain outsiders, makes economies of scale in merged French companies impossible to achieve. Well, yes and no. When BNP launched its hostile bid, Mr Pébereau promised there would be no mass sackings. Yet insiders knew full well that jobs would be lost: nothing dramatic, just a gradual squeeze to get rid of the fat. It happens all the time. When AXA and UAP merged in 1997, Claude Bébear, AXA's chief, also promised no mass redundancies among his 9,000 salaried French employees. Now, two years later, he has got rid of a quarter of them.

So far, so tolerable. Where the inventiveness of business should worry the government, and prompt some hard thinking about the *dirigiste* model, is the failure of the private sector to create jobs. The main reason why French labour productivity is so high is that companies do not employ a lot of people. They prefer to grow by investing in machines rather than by inflating their payrolls. This is chiefly because employers have to pay higher social-security charges, and spend more on redundancy pay, than almost anywhere else in the EU. The government may have trimmed these charges for young workers and those on low wages, but these rules, and others about hiring and firing, make employers deeply wary of taking on more workers.

This is particularly true in the service sector, which has been the motor of job creation in America over the past 20 years. For example, Toys "R" Us, according to a report by McKinsey, employs about 30% fewer people in its shops in France than it does in comparable stores in America. "At Club Med in the us", says Philippe Bourguignon, the group's boss, "we employ more kitchen hands; in France, we put in a dishwasher."

### Le business à l'américaine

If nothing else, the ingenuity of private enterprise should teach the state that it cannot force companies to do things in the way it once could. The state may be trying hard to reinforce the French model, but other factors are busy eroding it. And what is emerging looks suspiciously like the liberal American way.

Two recent examples show up the limits to the government's ability to interfere, and the price of its reputation for trying to do so. The first is the French government's failure to court suitors such as British Aerospace and Germany's DASA for Aerospatiale, the French state-controlled defence group. In the end, British Aerospace jilted the French (and then also the Germans) in favour of a tie-up with another British firm earlier this year, at least partly for fear of French state interference.

The second is the BNP bid, an event that made the French wallow in introspection. The motivation for it was still exquisitely French: to fend off an invasion by a foreign bank and to build up a French champion. But the method was straight from Wall Street. In times past, a hostile bid in the cosy world of Paris banking would never have been made without first securing the government's blessing. This time Mr Strauss-Kahn was barely informed, and the French regulators blessed the bid. "*Le capitalisme de papa* is over," declared Mr Pébereau.

Several factors will continue to push France ever closer to a form of capitalism in the Anglo-Saxon manner. One is that, over the past few years, a flood of investors from America and other foreign countries have been buying shares in French companies. French bosses have found themselves confronted by aggressive New York analysts asking nosy questions. Foreign shareholders now control 49% of AXA, 40% of Alcatel and 51% of Elf. Among the top 40 companies, an average of 35% of all stock is now held by American or British investors. Some three-quarters of all French employees of privatised firms are now also shareholders in their companies. All this makes it more difficult for French bosses and governments to run their companies like private fiefs.

The second is that younger businessmen are less insular than their elders. More of the recent graduates of the business-oriented *grandes écoles*, such as Polytechnique, HEC or ESSEC, some of which themselves now offer English-language MBAs, spend time at American business schools. Many have worked abroad. French business is already a little less chauvinistic than it was. Renault, now hooking up with Nissan to create the world's fourth-biggest car manufacturer, is sending its Brazilian-born number two, Carlos Ghosn, tipped to be the next Renault boss, to Japan. L'Oréal is run by a Briton. Several big French fashion houses employ British designers, such as John Galliano at Christian Dior and Alexander McQueen at Givenchy. According to a recent study by Korn/Ferry, a firm of headhunters, 17% of the directors of the top 40 French firms are now foreign, up from 6% in 1996.

It would be unwise to make too much of these changes. Many big French businesses are still sheltered from takeovers by a tangle of defensive cross-holdings. Shareholders are still treated with some disdain. Only 2% of all listed French companies split their board from their management. "I know of no other country that puts as much power in an executive chairman," says one French banker. "They are like little kings." Their pay may well be royal too, but it remains a secret: not one company among the top 40 publishes its directors' salaries.

Nor, for all the talk about creating a more international business culture, are French companies all that keen to recruit abroad. Not a single boss of a French bank has ever worked in banking outside France, according to Korn/Ferry. French employers still regard with awe the diplomas dished out by their own prestigious *grandes écoles*, particularly the Ecole Nationale d'Administration (ENA) and the Ecole Polytechnique (x). Even today, two-thirds of the chairmen of the top 40 listed French companies are graduates of these two schools. Only 28% of main board directors are genuinely independent, against 80% in America. The same faces crop up time and again in annual reports: just 10% of directors bag over a third of directorships of the top 40 companies. Many of the bosses of the biggest firms, such as Vivendi, Société Générale, AXA or BNP, have



Deceptively smooth Pébereau



shuffled there from top jobs in the civil service. Entrepreneurs such as François Pinault, who runs a successful retail empire, are still rare.

Companies have prospered under the French model, thanks to its *régalien* strengths, and in spite of its meddling tendencies; but at a cost. Were

French firms subject to fewer rules and lighter taxation, the French economy might be racing ahead now, leading to the sustained economic upturn that has eluded France over the past decade. In the short run, the *dirigiste* state may be tolerable. But in the long term, it is building up intolerable costs.

## For fear of McJobs

A generation of youngsters without work is the price France pays for its social model

LILLE, an industrial town in north-eastern France tucked up against the Belgian border and trampled on over the centuries by waves of Dutch, imperial French, Spanish and German invaders, has reinvented itself. A textile town since the Middle Ages, Lille owed its industrial riches to cotton spinning and fabric making, in a region powered by wool, steel and coal. The 1973 oil shock caused its collapse. Industry was crushed, and some 92,000 jobs were lost over the next two decades.

Today, however, Old Lille has been scrubbed squeaky clean. The paintwork on the 17th-century Flemish façades, newly occupied by patisseries and boutiques, has been retouched in mint-green and gilt. Fairy lights are strung across cobbled streets, potted plants placed neatly on the pavements.

Lille encapsulates the admirable French spirit of the state as planner. The city's renaissance owes much to the craftiness of Pierre Mauroy, mayor and political baron of Lille since 1973, who, at hefty public cost, persuaded his Socialist friends to lay the TGV track from Paris to the Channel Tunnel along a dog-legged detour through Lille. Thanks to the high-speed train, Lille is now two hours from London, one from Paris and 38 minutes from Brussels. As the city's publicity people keep reciting, it has "100m European consumers within a 300km radius".

Other factors too have spurred Lille's renewal: its long tradition of commerce and retailing; its cheap and skilled workforce; and its universities specialising in medical research. But the TGV serves as a vivid symbol of how the state can plan economic renewal, sponsoring cutting-edge technology while preserving French tradition. A brand-new plate-glass complex, called EuraLille, is a vast American-looking shrine to consumerism, housing clothes shops and offices rented at one-third the rates in Paris. Last year 52 new foreign companies set up in the city.

### Across the tracks

Away from the prosperous bustle of Vieux Lille lie the grim tower blocks of La Cité de la Concorde, a 1960s housing estate. Squatting by the flank of the city's *périphérique*, La Concorde is home to 4,000 people. There have been efforts at a face-lift—although the boulders lining the sides of the roads are there not as decoration but to block joy-riders in stolen cars. Two years ago the council persuaded McDonald's to come in to brighten the grim clutch of local shops: a grocer that sells couscous, a post office fortified with rusty window bars that swells with people collecting their monthly family welfare cheques. With unemployment at 28%, two-and-a-half times the national average, La Concorde represents the failures of the French model.

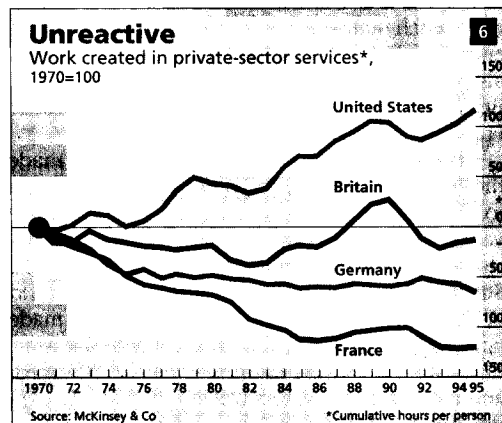


The litany of difficulties on the estate is relentless. Bronchitis and tuberculosis, thanks to damp and cold in flats where electricity has been cut off, are on the increase. Half the children in the primary school have both parents unemployed; some of them miss school because their parents do not get up in the morning. Drugs smuggled from the Netherlands are traded in a telephone box on the estate; children keep watch for the police from nearby windows. "When they cruise about in their BMWs," says a housing officer, "the dealers give the youngsters the idea that this is how to make a living."

"People here don't believe in anything any more," says a health worker based on the estate. "They have closed themselves off, and bring up their children like that." She knows young single women on the estate who have had babies at three-year intervals, the duration of an allowance paid after childbirth. The sense of defeat seems greater among white residents than among the 50% or so of foreign, mostly North African, origin. One young white girl has started to wear the Muslim veil in a bizarre effort to believe in something.

In recent years, there has been a renewed burst of moral panic in France about the suburban housing estates that ring so many of its cities. Much of the agonising about the moral fibre of the young concerns crime prompted by the breakdown of families and authority. Behind all the moral self-examination lies a fundamental economic problem: France has failed to create enough jobs for young people. Between 1970 and 1995, says McKinsey, in America the hours of work per head created in private services more than doubled; in France they declined by more than half (see chart 6). Nearly 3m people, or 11.5% of the labour force, are unemployed, far more than in Britain and America.

Advocates of the French model argue that joblessness is a hangover from the days when the





French pushed up interest rates to punishing levels to defend the *franc fort*. With the economy now on the upturn, joblessness will fall, as it has been doing gently since mid-1997. But this is only part of the story. The chief problem is a sticky labour market, caused mainly by the hefty social-security charges that employers have to pay for their workers, and by the high cost of laying them off. Structural unemployment may now be as high as 9-10%.

Most worrying, a quarter of all those aged under 25 have no job at all, and little chance of finding one soon. Two-fifths of the unemployed have been without work for over a year, half of those for more than two years. A recent French study showed that the unemployed in France take five times as long to find a new job as in America; yet those in work are five times less likely to lose their jobs. In short, there is a huge gap between those with and without work. The potential for this to translate into isolation, anger and violence is chilling.

There are signs of tentative change. The Jospin government last month announced plans for further cuts in employers' social-security contributions on jobs paying up to 1.8 times the minimum wage for firms which create an extra 6% new jobs—and enforce the 35-hour week. Most strikingly, last year four-fifths of jobs created in the private sector were in the form of short-term contracts, a sort of flexible working that is new to France. Even among men, part-time work is on the rise, although two-fifths of part-timers say they would prefer to work more. This new flexibility has helped to coax 400,000 jobs from the current economic upturn. But the relatively high minimum wage is still considered untouchable. And anecdotal evidence suggests that these changes do not go far enough. "Things are booming at the moment," comments one building contractor in Lille, "but I'll do anything to avoid taking on more workers."

By failing to create jobs, the French *dirigiste* model has failed to protect people from poverty. Some people disagree, pointing out that on the basis of the relative poverty line—half median income—France's poverty rate has hovered around a lowish 8% throughout the 1990s. But this is a numbers game. On the basis of the American poverty line of about \$22 per head per day, after adjustment for purchasing power it looks as though 12% of the French live in poverty—not so different from the 14% in America and 13% in Britain, practitioners of the Anglo-Saxon liberal way.

### A new red model army

On the second floor of a municipal police building in a run-down area of Roubaix, a textile town next to Lille, René-Vincent Rezzi, dressed in jeans and a bright red T-shirt emblazoned with the title "*médiateur*", is taking a call on his radio telephone. An abandoned car with smashed windows has been found by a colleague out on the street: has it been registered as stolen? Sitting in the control room, the walls decorated with maps highlighting "hot spots" with little coloured pins, he calls the police and then carefully records the incident in a paper file.

Mr Rezzi is one of the 179,000 young people who by April this year had become the beneficiaries of a youth job-creation scheme hatched by Mrs Aubry. In Roubaix, these *médiateurs* act as extra eyes



French service, American-style

and ears for the police. "Our only weapon is dialogue," says Ali Mecheri, the colleague who reported the abandoned car while cruising the streets in his matching bright-red *médiateur* sweatshirt. He takes home the minimum wage (FFr6,929 a month); the government foots 80% of the bill. Mrs Aubry, who is also Lille's deputy mayor, promises to create 350,000 such jobs by next year.

This French answer to joblessness comes at a price. The youth employment scheme alone will cost FFr35 billion a year when fully up and running. And young people are only one part of a subsidy-soaked workforce. Between 1973 and 1997 the number of French workers in subsidised jobs grew from 100,000 to 2.2m, according to the OECD, while the total in unsubsidised jobs shrank from 21.4m to 20.3m. Nearly a quarter of the French labour force now relies on government handouts, whether in the form of unemployment benefit or subsidised jobs. Because the government taxes employment so heavily, joblessness remains high, which in turn means the government has to keep on taxing heavily to pay for it. Mr Jospin's government is unapologetic. "When the private sector does not do the job, I would like the public sector to do it," explains Mr Strauss-Kahn. "The goal is economic and social inclusion: there are now 179,000 youngsters who are not on the streets, who are integrated into society."

It is a fair point, but it does not deal with the underlying problem: without greater flexibility, the French economy will not be able to create enough jobs in the long run, leaving a costly and potentially unsustainable task for government. Besides, labour flexibility is essential in a single European currency area in which different economies are growing at different rates under one monetary lid. Yet because of the distrust of the liberal American model, few voices in France, whether on the left or right, are publicly proposing a radical alternative to the French way. Indeed, far from welcoming new signs of flexibility, some ministers regard the recent explosion of short-term contract work as a manifestation of the uncivilised, precarious American way.

All rich countries, not only France, are grappling with the uncertainties brought about by the loss of job security. But some flexibility is welcome, even for the workers involved. Mothers often like part-







time jobs. French businessmen report that unskilled French youngsters are flocking to London to take up insecure, low-paid jobs in the service sector, which their own economy cannot create, as a means of gaining work experience. The unspoken attitude of government seems to be: we know better than they do what is good for them. If the alternative to unemployment is the indignity of "McJobs"—low-paid, low-skill work—the price is not worth paying.

"We want quality jobs, not low-paid ones," says an adviser to Mrs Aubry. "Our model is certainly very heavy and costly, but it guarantees our solidarity." Yet to the indignation of French Socialists meeting in Milan earlier this year, none other than a fellow leftist, Britain's Tony Blair, lectured them on the need to imitate America's flexible labour markets. "We can't argue with the fact that us unemployment is lower, growth higher," he declared. "High unemployment is not social cohesion."

### Improvident state

The impulse that prevents France from liberalising its labour market is stirring up problems across its welfare state. Take pensions. As things stand, the young pay for their retired parents' pensions. That is just about acceptable when the dependency ratio—people over 60 as a proportion of those aged 20-60—is roughly one to three, as now, but impossible when, in 2040, that ratio will have climbed to about two to three. Unreformed, state pensions could eat up 20% of GDP by 2040, up from 12% today. A government commission has proposed lengthening the working life for everybody, but especially for civil servants (train drivers, policemen and prison war-

ders can currently retire on full pension at 50, many others at 55). This has caused an outcry.

Yet the debate on pension reform has so far ignored one remedy: persuading those who can to save for their own retirement through private funded pensions. "Unthinkable", says a top government adviser; that system smacks too much of the risk-infested, inegalitarian American way. So the French bourse is kept busy by vast American pension funds because France has no big ones of its own.

Or consider health care, on which the French spend about 10% of their GDP, more than any other country in the EU. Bernard Kouchner, the health minister, talks of their "culture of medical consumption". They swallow more tranquillisers, sleeping pills and anti-depressants than anybody else, and antibiotics by the bottleful. The government has tried to curb costs, for instance, by limiting visits to different doctors with the same complaint, and closing surplus hospitals. But "it is horribly difficult," sighs Dr Kouchner, to the chants of protesters in the streets outside his office.

The French model costs the taxpayer dear. The total tax and social-security take last year came to 44.9% of GDP, the same as the record figure in 1997, and half as much again as in America. These days the government scarcely even promises to ease the burden, only to stabilise it. In its ambitious effort to provide for all, the state has propped up a system that discourages people from looking after themselves. And the rights that this has bestowed—*les acquis sociaux*—have come to be regarded as fundamental to the French way. Dismantling them is seen as an assault on France's national identity.

## The usual suspects

Too much state invites corruption, but a clean-up is under way

DEPENDING on where you stand, Eva Joly is either a villain or a saint. This gutsy, diminutive investigating magistrate, who arrived from Norway as a teenager in the 1960s, has in recent years conducted an almost single-handed war against corruption in France. She put behind bars Bernard Tapie, a business tycoon and one-time cabinet minister under Mitterrand, and placed under formal investigation such household names as Loïc Le Floch-Prigent, former head of Elf, an oil giant that was then state-owned, and Roland Dumas, head of the Constitutional Court, who in March took "temporary leave" pending her inquiries into gifts allegedly received from Elf when he was foreign minister. "Norwegian bird" and "Nordic ice queen" are among the politer terms hurled her way for her efforts. She receives periodic death threats and lives under 24-hour police protection.

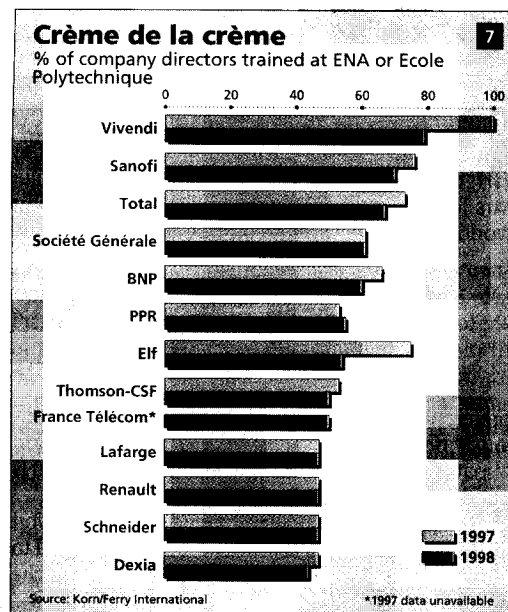
Something quite novel has been stirring the snug world of the French administrative elite. Since the early 1990s, corruption in its ranks has begun to be exposed, and punished—partly thanks to the growing confidence of French magistrates, partly inspired by Italy's anti-corruption trawl, and backed by an increasingly irreverent French press. In the past eight years, those placed under formal investigation over various corruption scandals include no fewer than 30 ex-ministers, including one



Solitary Joly

former prime minister, Alain Juppé; the former prefect of Corsica, Bernard Bonnet; over 100 former or serving members of parliament or mayors; six former or current leaders of political parties; and a quarter of the heads of the 40 biggest companies (some of whom have since left).

Many of these cases have not yet been brought



to trial. White-collar-fraud investigations take time, even though magistrates have powers to seize documents and computer disks, detain suspects before charging them and haul in witnesses. The number of convictions secured so far is relatively small: they include Mr Tapie, Pierre Suard, a former head of Alcatel, Jean-Michel Boucheron, a former Socialist minister, Henri Emmanuelli, a former Socialist party leader and ex-minister, and Alain Carignon and Michel Noir, two former Gaullist mayors and ex-ministers. Still, this list alone is quite breathtaking.

No idealists about their governing class, the French have entered into a sort of bargain with it. Their elite, narrowly drawn from the finishing schools of ENA and Polytechnique, has governed in their name and on the basis of popular faith in the state, wielding an extraordinary amount of centralised power. Some of these people, reared as a chosen caste, came to believe they were also above the law. They shuffled from plum jobs in the civil service and ministerial cabinets to peaches in private business; they sat on each other's boards and dined at each other's tables. The electorate seemed not to mind.

In the early 1990s, however, the faltering economy and mounting joblessness, along with a growing number of scandals, began to expose the costs of this by-product of the French model. Corruption thrives on a heavy state. The more layers of government, the more civil servants with contracts, jobs and favours to dish out, the more opportunities for graft; all the more so since many of the civil servants slip effortlessly into the private sector. Corruption and mismanagement are not just moral or cultural matters, as those Frenchmen who mutter about alien "northern European" values sometimes suggest: they reward inefficiency, and in the end the taxpayer picks up the tab.

A sense of popular disillusion with the political class has spread, and helped to account for the election in 1997 of the deceptively dull-looking, but reassuringly serious Mr Jospin, who promised to "say what I do and do what I say". Along with rising insecurity and xenophobia, it also helped the Nation-

al Front, which scooped up 15% of the national vote in 1997. It may even explain the French appetite for political "cohabitation": in recent years the French have elected a government of a different political complexion to the incumbent president no fewer than three times (in 1986, 1993 and 1997).

### Nordic breeze of change

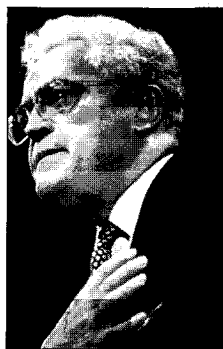
Will the precedents being set by Mrs Joly and her colleagues bring about genuine change? There seems to be the popular will for it, and now the judicial muscle as well. Since 1995 the financing of political parties by companies, the source of so much corruption, has been outlawed. The privatisation of state enterprises has robbed civil servants of the more blatant opportunities for crookery. And all those pesky American pension funds buying into French firms will make it harder for managers to ignore shareholders. Large-scale corruption will be harder to disguise.

But smaller-scale graft and cronyism will be hard to root out. Mitterrand's devolution to the regions, which added another layer of government, also added another layer of opportunity for corruption. The latest survey by Transparency International, a consultancy, ranks France 21st in the corruption league, better than Italy (39th) but lagging Britain (11th) and Germany (15th). The perks enjoyed by so many civil servants also seem to have blurred the line in the public mind between acceptable remuneration and downright graft. Small-scale local corruption, says Pierre Mairand, of the Central Service for the Prevention of Corruption, is common: "We still have a lot of work to do."

Nor is it evident that the French elite has become much more opposed to cronyism than it used to be. A French newspaper, *Libération*, did break the story about alleged wrongdoing by Edith Cresson, a former Socialist prime minister and at the time a European commissioner, including the claim that she had handed out a contract to her dentist, said to be a close friend. But until she was forced to resign in March over charges of mismanagement and nepotism, bringing down with her the entire commission, her party continued to defend her, and she herself continued to insist that she had done nothing wrong. Had she really not? "Come on," replies one top French diplomat, only half in jest, "have you never had a lover?" The message does not seem to have sunk in.

Corruption is not the only vice that irks voters. They are also annoyed by the arrogance that so often accompanies it, and which shows little sign of lessening. Mr Jospin is popular in part because of his reputation as an honest man. Indeed, much was made at the time of his election of the fact that he is a Protestant in a Catholic country. "It gives him this rigorous, honest quality," says a close friend. But the system that churns out a boundlessly confident elite, neatly ranked at graduation in order of brilliance, does not easily lend itself either to humility or to heterodox thought.

Mainstream politics in France leans far less on parties than it does on personalities. Ministers tend to be cultural graduates of ENA more than of their political parties. South Africa's African National Congress, founded in 1912, is three times older than all three parties of the mainstream right. The roll call



Jospin vows



recent years



of government reads like a graduation class from ENA: six of the past eight prime ministers; two of the past three presidents, including the current incumbent, Mr Chirac; just over half of the top 17 ministers in the present government, including Mr Jospin. The sheer exclusivity of their education will keep the old-boy network going. Each year ENA produces a mere 80 or so graduates, and Polytechnique just 300; the total number of ENA graduates is

smaller than the yearly output from Britain's two most prestigious universities, Oxford and Cambridge. Tomorrow's graduates, like yesterday's, will continue to dine together and offer each other jobs. It is an intrinsic feature of a deliberately elitist system, set up to furnish the mandarins needed by the *dirigiste* French state. Perhaps only an outsider like Mrs Joly would dare to chip away at such a clubby world.

## Black, blanc, beur

France is a melting pot, but refuses to accept it

NESTLING at the foot of pink Provençal cliffs, surrounded by fragrant pine and almond trees, lies the soulless 1960s new town of Vitrolles, built to house workers recruited in northern France and Algeria for the factories nearby. Since 1997, its concrete town hall, with the words *Liberté, Egalité, Fraternité* inscribed above its doors, has been controlled by the far-right National Front. The mayor is Catherine Mégret, wife of Bruno, leader of one half of the now-split party.

Far-right parties have prospered on the unsavoury fringes of many European countries. But France's National Front, which when still intact gathered 15% of all votes, has proved peculiarly tenacious. It may now be torn in two, after Jean-Marie Le Pen, its bombastic previous commander-in-chief, and Mr Mégret, then his number two, fell out in a power struggle late last year. But it continues to cast a menacing shadow over French politics, not least because its success divides the mainstream right. And one of the reasons the far right has been able to flourish is the myth of French homogeneity—a feature of the French model.

The recruiting slogan for the far right is “the French first”. At the centre of Mr Mégret's scheme, for instance, is “national preference”: giving priority to French people in welfare benefits, jobs, housing or anything else. In Vitrolles, his wife has been obediently putting his vision into practice. “National

preference”, declares her husband, a small, fastidiously neat man, “is simply the national expression of patriotism, the love of your country. Patriotism is not the same as racism.”

Even if you take such remarks at face value, you are left with a problem: it is no longer meaningful to separate the French—or the *français de souche* (those of “real” French stock), code for whites—from foreigners. The children and grandchildren of Algerians or Moroccans who stepped off the boats in Marseilles in the 1960s are French. The closest many of them have ever been to North Africa is the local Moroccan restaurant. But because France prides itself on turning its newcomers into Frenchmen—a historical impulse reaching back to the revolution—it is difficult to find space for an identity that is neither French nor foreign. “France is afraid of itself,” says Mouloud Aounit, of the Movement against Racism and for Friendship between People, a pressure group, “because it is a country of immigration, but has never accepted itself as such.”

In 1886, some 1m of France's then population of about 40m were foreigners. North Africans began to arrive from 1910. Successive waves of immigrants were recruited to work in car factories, chemical plants and steelworks. By the end of the 1920s there were 3m foreigners in the country, about 7% of the population (more than today's 6%): a jumble of Belgians, Italians, Poles, Armenians and Moroccans. In 1930, the rate of immigration into France was higher than into America. Throughout the 1960s, France recruited steadily from North Africa, Portugal and Yugoslavia. And still the French, reared on the republican revolutionary legend of a single homogeneous nation, had not come to terms with the idea that these “foreigners” were there to stay.

The myth of homogeneity makes it all the harder for the children and grandchildren of immigrants to find a place for themselves in France. And it makes it all the easier for the far right to persuade worried voters that their national identity is being “contaminated” by foreigners. The silent foreign invasion, wrote Mr Mégret in a pamphlet last year, “puts the very identity of our nation in peril. Who can believe that our nation, an old European and Christian land, will remain the same if tomorrow our country becomes covered in mosques?”

In America, you can be a hyphenated-American, part of two cultures at once. In France, you are either French or you are not; there is no cultural half-way house. This is why foreigners who dress or look different, however integrated they may feel, get treated badly. This is also why people like Mr Mé-



Frenchmen with attitude

gret pontificate about the need to counter "Anglo-Saxon pressures" to save the country from the dreaded American melting-pot. This is why the National Front wants to "send home" 3m immigrants. And this is why Mrs Mégret has renamed her town Vitrolles-en-Provence, and changed the Place Nelson Mandela into the Place de Provence.

### A war on two fronts

Just down the road from the National Front's control room in the Vitrolles town hall lies the Lycée Pierre Mendès-France. On a Friday evening, dozens of teenage French schoolchildren, mostly of North African origin, are hanging about on the terrace waiting for a rock concert, part of national anti-racism week organised by SOS Racism, a pressure group. "1=1; intolerance=0", declare anti-racist posters pinned to the walls. In their Nike baseball caps, baggy tracksuit bottoms and sweatshirts emblazoned "Yankees", these teenagers are culturally a world away from Mr and Mrs Mégret, but legally as French as they are. This is the other side of France: young, defiant, multiracial and inspired by America. And the National Front cannot interfere, as schools are not a municipal responsibility.

Against the odds, French youngsters like these are carving a space for themselves, albeit one filled with resentment. The word *beur* (meaning Arab) is a badge of pride, and the little litany of "black, blanc, beur" has become an emblem of the young, integrated, streetwise French. They have invented their own slang, *verlan*, which inverts the syllables of standard French. There has been an explosion of popular French rap groups such as "Nique Ta Mère" (Screw Your Mother); their names and their anger inspired as much by the Bronx as by the suburbs of Marseilles. "We've got nothing to lose because we've never had a thing," goes one rap. "If I were you, I wouldn't sleep soundly; the bourgeoisie should tremble, the rabble is in town."

More far-reaching in lifting the self-confidence of young *beurs*, and in liberating the French from

their narrow self-perception, was the country's victory at the football world cup last year. The French national team was a genuine mix of black, *blanc* and *beur*, the greatest hero among them Zinedine Zidane, the French son of Algerian immigrants. "What better example of our unity and our diversity than this magnificent team?", declared Mr Jospin. A million people poured on to the Champs Elysées in Paris to celebrate, the *bourgeois* in their Barbour jackets, some of the *beurs* waving Algerian flags, and nobody seeming to mind. France saw a new reflection of itself, and liked it. "They would have cheered just as loudly if they had all been white," grumbles Mr Mégret, "perhaps even more."

Since that famous victory, the spirit of the world cup has drifted. Perhaps there has been a tip-toe of a change, but the restless young *beurs* in the suburbs still have no jobs; and the unemployed white voters of Vitrolles still believe that the *beurs* have pinched theirs. All the insecurities and anxieties of ordinary Frenchmen still crowd into the National Front.

The far right has been written off as a spent force many times in the past, only to bounce stubbornly back. Even if the two National Fronts separately fail to bag as many votes as they did together, the appeal of xenophobia will not have been lost on the mainstream right, currently in disarray and casting about for a new message. Already last year five mainstream right-wing regional presidents, seduced by Mr Mégret's quiet policy of what he calls *dédiabolisation* (a bid to win respectability), formed pacts with the National Front to try to hang on to power; all were expelled from their party. If nothing else, the rise of the National Front seems to have made racism less unacceptable in French people's minds. In an official poll in March, two-fifths of the respondents had no qualms declaring that they were "quite" or "a little bit" racist. And 51% said they thought there were "too many Arabs" in France. France may be changing, but in this respect—as in so many others—the French are still not ready to accept it.



## If in doubt, seek Europe

FOR NATO's bombing of the Serbs, the French contributed the largest number of European fighter aircraft, twice as many as the British, and placed them under American command without so much as a murmur. The two French leaders, President Chirac and Mr Jospin, whose government had been agitating about the dangers of the American hyperpower, stood solidly behind the attacks. Did this mean that the French were moving closer towards the Americans?

Not if you believe a poll carried out during April, when the bombing was in full swing. A hefty 68% of the French were worried about America being the sole superpower. Some 61% said America's influence was too great culturally; 60% economically; and 56% militarily. French politicians, inside Mr Jospin's left-wing coalition as well as in President Chirac's Gaullist party, wailed about NATO being a "tool of America". Asked whether there should be a new European force to replace NATO al-

together, 57% of the French said yes, against an average of only 36% in all NATO countries.

In foreign and defence matters, there is often a gap between what the French say that they want and what they actually do. Once again, it is ambivalence about America that is responsible for much of this gap. Ever since De Gaulle pulled France out of the military command structure of NATO in 1966, the French have felt a pressing need to stand up to America. In many ways, France regards America in the same way as Britain regards Europe: with suspicion, fascination, incomprehension and irritation—all the while knowing that it cannot do without it.

This often makes the prickly, proud French difficult to deal with. For one thing, France's instinct is to be suspicious of the Americans or the British, whom they regard as America's obedient transatlantic lap-dog. When Britain's Tony Blair first came round to the French idea for a common European defence capability, for instance, French eyes

It's the best way to rival America







narrowed with doubt: was this not an Anglo-American plot to haul France back into an American-dominated NATO?

Or take President Chirac's decision in 1995 to step closer to the Alliance again. Post-cold-war NATO, he could argue to the sceptical French, was different, a force for peace, a club for both West and East. So France signalled that it might rejoin NATO's military structure, but then promptly rattled the Americans by insisting that NATO's southern command in Naples be held by a European. Pushy, impertinent French, fumed the Americans. The French, in turn, withdrew in a sulk.

Now, just over two years later, French bombers have been fighting under direct American command from Naples; French generals admit that they are, in practice, integrated into the Alliance. In the long run, even French officials say it is probable that France will fully return to the NATO fold. So will France publicly announce as much? "Absolutely not," replies a top French diplomat. "Being apart is a symbol of our national independence."

The more France recognises the reality of American domination, the more it is determined to resist—at least in public. Only last year, for instance, envious of the growing numbers of foreigners streaming to American universities, the French government set up an agency to promote French higher education to foreigners. The chief point, said Mr Védrine at its launch, was to counter America's "megapower" and "to disseminate our ideas".

#### Old friends, new faces

The prime motor of France's European project has been fear of Germany; but since the end of the cold war, the French have become increasingly exercised by the need to restrain American unilateralism. France has long accepted that it cannot carry out the job by itself, and that it can succeed only with Europe's help. "France has no other way of projecting itself than through Europe," says an adviser to President Chirac. Where the British see Europe as a threat to their national power, the French see it as a multiplier of theirs.

Even the single European currency, which the French pushed as a political force to bring Europeans closer together and as a financial mechanism

for locking themselves to German monetary discipline, was heralded in France as a triumph in Europe's battle against American hegemony. At last, the French declared jubilantly, here was a currency that could challenge the American dollar. Hence their recent agonising about the euro's slide.

In France these days Europe is still the answer, no matter what the question. Europe for the French is not the considered response to a perceived need, it is a political imperative. Part of the French zeal for a European defence arm comes from a sense that, with the single currency wrapped up, there needs to be some other European project to get on with.

Central to France's unshakeable faith in Europe is its special friendship with Germany, cemented by the 1963 Elysée treaty signed by Adenauer and De Gaulle. Invaded by Germany three times in less than a century (in 1870, 1914 and 1940), France has not yet shed its nagging fear of the Germans. These days this fear is not a military one, but the unspoken worry that a more self-confident Germany will outgrow its need to be handcuffed to France.

That is why, on the election of Gerhard Schröder to the German chancellorship last September, there was so much fretting in Paris. How could a man with no direct experience of the second world war understand the importance of the historical bond with France? Mr Schröder may have taken the first flight to Paris after his election, but what of his mateyness with Mr Blair? As for Germany's decision to move its capital from Bonn to Berlin, the French cannot help reading a symbolic significance into Berlin's greater geographical distance from Paris. How can France be sure to preserve its influence in a European Union enlarged into Central and Eastern Europe? The last thing France wants to do is end up as a second-order power in a Europe run by a mighty Germany.

So far, so good: the pair's friendship recently passed its stiffest test since Mr Schröder took office. To the dismay of other Europeans, Germany caved in earlier this year over reform of the EU budget. Germany is the biggest net contributor, and had insisted on a fairer scheme. But France, which gains most from the EU farm budget, and where farmers have a peculiarly sentimental hold on the popular imagination, had refused to let anybody do more than trim the common agricultural policy, which gobbles up half the EU budget. In the end, Germany threw up its hands at French intransigence—persuaded, it is said, by stern words into Mr Schröder's ear from Helmut Schmidt, a former chancellor and now the Social Democrats' grandfather figure, about the fundamental importance of Franco-German friendship. But veterans like Mr Schmidt will not be around for ever.

#### Feeding frenzy

Just as France alone cannot cut a dash in the political world, so its companies cannot compete in today's fast-changing global market simply by being big fish in the French pond. In economic as in political matters, France seeks to solve this problem through Europe. Combined, the EU economy is about as big as America's, with roughly a third more people. To stay alive, and to make use of the bigger EU market to gain the economies of scale that American firms enjoy at home, European firms need to



Calling the tune?

grow. This means they have to feed in the whole of the euro-pond. The strongest force now propelling them to do so is Europe's single currency. From retailers to insurers, weapons makers to banks, firms across the EU have been trying to build European champions big enough to take on the Americans. In insurance, for instance, Allianz, a big German insurer, fought off Generali, an Italian one, to get its hands on AGF, a French one. Earlier this year, AXA, itself the product of a merger between two French insurers, snapped up Guardian Royal Exchange, a big British one. The value of mergers and acquisitions in the EU in the first quarter of 1999 was 82% up on the previous quarter, to a record \$434 billion.

It is not just the euro that is responsible. Europe's single market has been in place since 1992. Deregulation of markets by the European Commission has also played a part. But the euro has hastened the trend. It makes prices more transparent, and therefore capital easier to allocate efficiently. French firms now compete with other European firms in their industry for a place in a London or New York fund manager's portfolio. The single currency within the single market also pushes down transaction costs and eliminates some uncertainty for investors. The resulting efficiency gains should boost the euro-zone's GDP by 0.5%, or €32 billion, according to the commission.

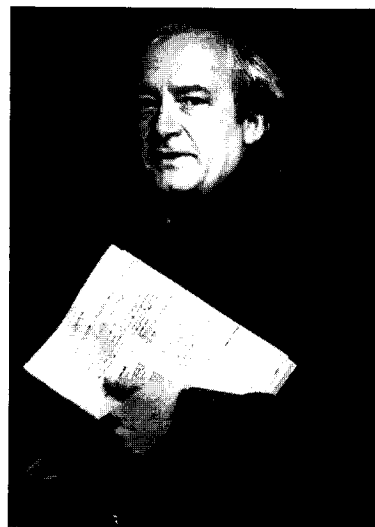
The French can see all this as clearly as anybody else. Indeed, were it not for their recognition that in many industries size matters more than ever, the French regulators might well have blocked the Banque Nationale de Paris bid from the start. As it is, they would prefer to see at least one big French champion surface from the fight. Even if a second round of pan-European consolidation in, say, banking gave birth to mega-banks, as is happening in America, there would at least then be a chance that such outfits had a strong French flavour.

But even though the French realise that Europe's market increasingly resembles America's, they want to make quite sure that the resemblance does not spill over into the social sphere. As workers, they argue, Europeans must be protected from the excesses of liberal capitalism. And in trying to fashion a European social model, with ideas such as a Europe-wide minimum wage, the French are hap-

py to find themselves in sympathetic company. The left holds power in 11 of the EU's 15 member countries, many of which have social models of their own. Mr Strauss-Kahn is far less radically left-wing than Germany's recently ousted finance minister, Oskar Lafontaine. But his policies reflect a genuine wish to come up with a working European model that is different from the American way. The hope is that in a bigger and more efficient single market, Europe might just have a chance to do this.

France's impulse to stand up to America can be constructive, as the present French and American governments both know. In many respects, the two countries are working well together, despite their public quarrels: not just in Kosovo, but also in Africa, where they have called a truce of sorts over their traditional local rivalry. France's reputation for challenging America can be useful to both countries, as its freelance efforts to mediate in the Middle East have shown on occasion. Europe's hopes to defend itself without the Americans' technology, might and money may be a pipe-dream for the foreseeable future; but France is not alone in feeling uneasy about the lack of a multilateral mandate for controversial policies such as the NATO bombing of Serbia. Its push to fortify multilateral institutions, be it the UN or the IMF, may be motivated chiefly by a desire to curb American unilateralism, but also reflects a welcome concern about international democratic legitimacy.

Other Europeans who share France's sentiments about an overbearing America seldom dare say so. Instead, they tend to cling to the apron-strings of the reliably undaunted French. It is probably not true that the rest of Europe is happy about American domination, as the French sometimes complain. But no other country of comparable economic and political weight is anything like as mesmerised by it.



Hyper Védérine



## Irreconcilable differences?

**H**OW can France resolve the tension between the rhetoric of a "French way" and the creeping reality of American-inspired change? There are three scenarios. The first is that France, fearful of change but mindful of the need for it, reforms by seeking outside scapegoats. French governments, unlike the French state, tend not to be strong. There are a number of reasons for this: the relentless cycle of elections (municipal, departmental, regional, legislative, presidential, European) that keep politicians riveted to the next poll, and hence wary of reform; the introversion of the political class; and the recent taste of the French electorate for political cohabitation, which can paralyse policymaking.

France sometimes gives the impression of being

engaged in semi-permanent confrontation: so far this year, the streets have been clogged with successive waves of disgruntled farmers, teachers, schoolchildren, women, pensioners, pacifists, telephone workers and supporters of the traditional family. At heart France is terrified of confrontation. Time and again, the spectre of 1968 (and of 1848, 1830 and 1789) rises at the back of the French political mind to prompt capitulation to protest. So French politicians reach for outsiders to blame for the changes they know to be necessary but cannot bring themselves to make. It was the European Commission that twisted French arms into selling state firms such as Crédit Lyonnais, into prising open the French telecommunications and electricity markets,

*To succeed in the modern world, France must overcome its distaste for the Anglo-Saxon model*

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and the euro that precipitated the current wave of takeover bids now shaking up French markets.

The second scenario is that the government continues to let change creep up on the French people while denying anything of the sort is happening. To succeed, this needs to be done at a barely perceptible pace, while consulting everybody in sight; not to ram it home brutally, as the unhappy Mr Juppé tried to do. For instance, France is opening its electricity market, but as slowly as the European Commission will allow it to get away with. Mr Jospin will spend over a year consulting on pension reform. In other words, let people get used to the idea gently.

To the despair of those who believe that it helps for the government to explain what it is doing, this ploy is accompanied by rhetorical sleight-of-hand. Mr Jospin never utters the word privatisation, for example, because it has far too Anglo-Saxon a flavour; he prefers to call it "opening up the capital". In this scenario, it would be conceivable for the French to end up embracing policies which at present they publicly reject. For instance, without attracting much notice, the government has set up a tiny supplementary pension fund. So far it contains only a paltry sum, but its mere existence suggests that somewhere the idea of funded pensions in the Anglo-Saxon manner is being chewed over.

Both of these scenarios, however, presuppose that French voters will not notice that their government is making these changes on the sly or that, by the time they do, they will no longer mind. For a government like Mr Jospin's, elected on a promise to do what he says and say what he does, this looks a bit risky. He could just pull it off, by balancing change with enough gestures to the status quo. In many respects, the 35-hour week was an exercise in political symbolism, a sop to the left thrown by Mr Jospin's coalition to make other policies, such as privatisation and taking a tougher line with the unions (for example, striking Air France pilots last year), more palatable.

Both of these scenarios also assume that the government wants change. This government has its pragmatists (such as Mr Strauss-Kahn and Mr Jospin) and its ideologues (such as Mrs Aubry, not to mention Greens and Communists); its mixed record reflects the tensions between them. Mr Jospin certainly understands that the fiscal demands of membership of the euro, pressures on the welfare state from demographic trends, and international competition make some changes irresistible. He has, on occasion, expressed admiration for the American model, remarking on a trip there last year that its dynamism was not based simply on the creation of low-wage jobs. But reasoned pragmatism still bumps up against instinctive faith in the state. And even if Mr Jospin is aware of the need for change, there are still limits to what he may be prepared to do. He has his eye on the campaign for the 2002 presidential election, and will not want to push the voters too hard.

The trouble is that time is one asset France does not have. The cost of putting off the reforms the country needs is economic slippage. And the more that France feels it is losing in importance, the more prickly and resistant to change it will become.

What if the French dislike the implicit dishonesty in the change-by-stealth ploy? What if

their fears about precarious work become unbearable because their politicians—the same old faces—refuse to provide explanations and insist that nothing will change? What if the shrinking band of younger people who do have jobs find themselves saddled with a huge bill for their elders' pensions because no government has been bold enough to reorganise the system? The potential for disillusion to turn to violence in France should never be underestimated. This is a country which, it is said, cannot reform, but evolves through revolution.

From Lille to Toulouse, the suburbs are currently rearing a generation that may find itself the third in a row without work. This is not a recipe for stability in any country, and least of all a place like France where outsiders find it difficult to fit in. Each long summer fosters boredom, friction and turbulence.

### Ending the illusion

French politicians have yet to find a way to preserve France's identity while introducing American-inspired, liberal-minded reform. French resistance to Americanisation need not always be a problem. In cultural matters, the government is learning that central-government fiat cannot dictate the choice of French consumers, less than ever in the Internet age. On the defence side, too, it seems probable that the French will rejoin NATO's military command structure one day. And the French impulse to fortify multilateral institutions, and to run freelance foreign-policy missions independently of the Americans, can be both refreshing and useful.

Resistance to Americanisation matters more, however, and is at its fiercest, where France's cultural ideas about itself collide with its economic needs. Economic reform is hard to bring off anywhere, but particularly so where it challenges potent issues of national identity. France needs to reform: not its entire model, because some of it works well, but large parts of it. Yet it will not be able to as long as its leaders remain near-paralysed by its suspicion of the American—or at least more liberal—way.



But does France return the favour?

